

Realty Trust Review

January 11, 1980

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MARKET ANALYSIS: NEW OPPORTUNITIES FROM STILL GROWING OWNERSHIP CONCENTRATION

Investment and speculative money continues to represent a higher proportion of the market value of realty trust stocks as new positions are taken and old positions are augmented, raising the possibility for the smaller investor of riding on the coattails of much wealthier, sophisticated investors. Indeed, some of these investors themselves are moving in on realty trust stocks where another major investor--or even two--has already staked a claim.

The table on pages 2 and 3 lists trusts in which outsider (non-management) groups have bought 5% or more of the trust shares and filed the required 13-D

form with the Securities & Exchange Commission. The list updates the material presented in the May 11, 1979, issue of REALTY TRUST REVIEW, with an important distinction--where outside groups have assumed full control of a trust, we have eliminated it from the listing, detailing it instead in a separate list found on page 4. Thus we have 61 trusts that are named on the current list (over 40% of all trusts reviewed in RTR), compared with 52 trusts last May, but that 52 included 10 trusts now found in the list of "full-control" situations, and an additional two trusts (Prudent and Continental Illinois Properties) which were completely taken over. The market value of the investments amounts to \$107 million, which is below the \$125 million tallied last May; naturally, this re-

(Continued on p. 4)

WITH OUR SISTER SERVICE

HOUSING & REALTY INVESTOR (formerly Real Estate Disclosure Digest) Jan. 18 issue will contain our bi-monthly Relative Appeal Ranking of about 45 leading merchant builder, investment builder, and mortgage stocks. Single copy: \$20 prepaid

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TABLE I -- MAJOR OUTSIDER BLOCK HOLDINGS IN REALTY TRUSTS @ JANUARY 1980

Trust	Th.Sh. Out	Buyers	Date*	Th.Sh. owned	% of Total	Mkt. Val. (Th. \$)
Amer. Fletcher..1,352		Edwin Morgens, Bruce Waterfall	8/14/79	67.7	5.0%	\$ 110
Amer. Realty....2,222		Brent Baird, Leland Speed	5/8/79	122.3	#5.5	336
BankAmerica.Rl..3,547		DeRance, Inc.	10/20/78	177.5	5.0	3,173
" " "		SDK Industrial Parks	8/16/79	184.0	5.2	3,289
Bay Colony Prop..3,315		DVM Inc.	10/3/79	325.3	9.8	2,114
Bradley RET.....1,152		Octagon Financial	11/30/79	73.7	6.4	590
" " "		William G. Myers	7/16/79	59.9	5.2	479
" " "		Bramont Corp. et al.	3/2/78	159.1	13.7	1,273
BRT Realty.....1,400		Brent D. Baird et al.	5/9/79	122.3	8.7	115
Builder Inv. Gr..2,929		Seede Inc. (Lincoln Mtg. sub)	11/8/79	176.6	6.0	408
" " " "		Morse F. VanHorn	3/5/79	197.1	6.7	455
Capital Mtg.....1,675		Edwin Morgens, Bruce Waterfall	5/18/79	100.4	6.0	126
" " "		John G. Taylor	12/4/79	149.0	8.8	186
Central Mtg.....775		Brent D. Baird	8/27/79	41.3	5.3	392
" " "		Peregrine Inv. Co. et al	11/19/79	122.8	15.9	1,167
Citinationl Dev..600		Warren T. & Susan E. Buffett	11/30/79	40.4	6.7	374
Citizens & So...6,438		Loyal American Life Insur.	4/10/79	403.0	6.3	605
Clevetrust Rlty..2,525		Drexel Burnham Lambert	10/24/79	214.2	8.5	1,660
CMT Inv.Tr.(com)2,030		Edwin Morgens, Bruce Waterfall	8/21/79	73.2	3.6	119
CMT Inv.Tr.(pfd)2,149		" " " "	8/21/79	318.5	14.8	597
Diversified Mtg..7,326		MEI Corp.	8/8/78	540.9	7.4	2,434
" " "		David Murdock	11/9/79	384.6	5.2	1,731
Eastover Corp...1,034		William Rosenwald et al.	7/11/79	56.4	5.5	733
Fidelco Growth..1,580		Sidney Baer (c)	12/19/79	276.9	17.5	1,142
" " "		Asset Management Inc., et al.	11/10/78	67.0	4.2	276
First Carolina..1,510		Brent D. Baird, Eastover	8/3/79	287.3	19.0	1,867
First Denver....1,621		Drexel Burnham Lambert	7/31/79	112.9	7.0	226
First Memphis...1,156		Edwin Morgens, Bruce Waterfall	10/5/79	168.4	14.6	737
" " "		Drexel Burnham Lambert	10/19/79	66.4	5.7	291
First Mtg. Inv..8,495		Richard W. Larson	1/31/79	760.0	8.9	1,140
" " (Ser. B pfd)		Chittenden Assoc.	12/15/78	139.5b	14.1b	NM
First Newport...2,339		Deltec Panamerica	6/20/79	130.8	5.6	262
First Union.....4,929		Unicorp Financial	8/27/79	248.9	5.0	3,734
First Vir. Mtg..1,208		Amer. Diversified (Allen&Co.)	4/26/79	71.5	5.9	206
First Wisc. Mtg..1,988		Sheldon Lubar et al.	8/7/79	192.1	10.1	1,009
" " " "		Kidder Peabody	7/24/79	139.1	7.3	730
" " " "		Lowell McNeill	3/31/79	117.3	6.1	616
Flatley Realty..1,000		David Wolf, Robert Blatt	11/13/79	90.6	9.1	521
Franklin Realty...999		Benjamin Elec. Eng. et al.	5/16/79	165.2	16.5	1,920
" " " "		" " " " "	2/27/79	31.3b	3.0b	252
" " " "		Collins C. Diboll	3/15/79	55.0	5.5	639
" " " "		Frederick C. Whitman et al.	11/5/79	121.9	12.2	1,371
" " " "		" " " " "	11/5/79	30.6b	3.0b	344
Fraser Mtg.....1,038		Jeffrey Schultz et al.	2/16/79	181.3	17.5	1,722
General RE Sh.....557		Octagon Financial (Don Foote)	4/2/79	81.3	#14.6	894
GMR Properties..2,957		Deltec Panamerica	7/23/79	204.6	6.9	435
Great Amer. M&I..7,372		Edwin Morgens, Bruce Waterfall	4/6/79	1010.2	13.7	3,157
GREIT Realty.....998		TBK Partners, Viridian Inv.	11/23/79	53.8	5.4	464
" " "		Unicorp Financial	12/19/79	226.4	22.6	1,953
" " "		DeRance Inc.	2/14/79	50.1	5.0	432
Hamilton Inv....2,175		Jersey Mtg. Co.	5/10/79	130.9	6.1	327

TABLE I - Continued

Trust	Th.Sh. Out	Buyers	Date*	Th.Sh. owned	% of Total	Mkt. Val. (Th. \$)
Indiana Fincl...	1,154	Drexel Burnham Lambert	8/10/79	69.7	6.0	209
Institutional...	6,798	BankAmerica Corp.	3/31/78	412.8	6.7	516
"	"	Donaldson Lufkin Jenrette	6/30/78	410.0	6.7	513
Kentucky Prop...	1,100	Brent D. Baird et al.	6/18/79	227.6	20.7	427
Lincoln Mtg.....	1,155	Don C. Whitaker et al.	11/23/79	74.3	6.4	251
Maryland Rlty.....	760	Federated Reinsurance (sub. of Federated Devel. Corp.)	4/10/79	184.0	24.2	506
Metroplex Rlty...	11,840	Edwin Morgens, Bruce Waterfall	11/23/79	650.4	5.5	325
Midland Mtg.....	2,382	E. Peter Hoffman Jr.	4/20/79	424.6	17.8	1,592
Miller (Hen. S)...	560	James Jackson et al.	5/6/78	64.0	11.4	1,136
Nationwide RE...	1,047	DeRance Inc.	11/19/79	55.4	5.3	762
Newcorp.....	3,854	Fuqua Indus.	10/31/79	925.0	24.0	2,891
NJB Prime.....	1,850	Prime Motor Inns (d)	10/30/79	151.4	8.2	757
North Amer. Mtg...	6,901	American Financial Corp.	4/9/79	2500.0	36.2	13,125
Pacific Realty...	840	Douglas M. Heller, Ivory Ltd.	4/10/79	45.8	5.5	1,031
Pacific Southern..	800	Byron Webb (was Mission chrmn)	3/26/79	61.2	7.7	482
Penn. REIT.....	1,561	DeRance Inc.	10/1/78	99.1	6.5	2,316
Plaza Realty....	1,114	Louis Fieland	1/29/79	59.5	5.3	67
"	"	Martin B. Tepper	4/13/79	57.0	5.1	64
Prop. Tr. Amer...	2,338	Shamrock Assoc.	11/19/79	282.2	12.1	2,081
"	"	Federated Development Co.	11/29/77	138.6	5.9	1,022
REIT of America...	1,633	Unicorp. Financial	12/19/79	160.0	9.8	3,360
Riviere Rlty.....	783	Loyal Amer. Life Insur.	12/4/79	42.0	5.4	242
San Fran. REIT...	1,399	Unicorp Financial	12/19/79	82.3	8.4	1,955
Security Mtg....	7,412	Smith, Barney Real Est. Corp.	12/19/79	923.0	12.5	3,461
TIERCO.....	2,355	Viking Inc.	10/18/79	1160.0	49.3	4,350
TRECO Inc.....	2,299	Loyal Amer. Life Insur.	5/24/79	114.0	5.0	171
"	"	"	5/24/79	601.0b	20.7b	902
"	"	Stanford Phelps	6/6/79	867.3b	27.4b	1,301
"	"	Westchase Realty	5/25/79	833.0b	26.6b	1,250
Tri-South Mtg...	2,903	Drexel Burnham Lambert	9/21/79	856.0b	22.8b	2,675
"	"	Edwin Morgens, Bruce Waterfall	3/28/79	304.4b	11.8b	951
United Realty...	3,610	Federated Develop. Co.	12/7/77	203.0	5.6	2,005
U.S. Equity.....	1,067	Amer. West Cp., M.W. Mylroie	1/19/79	231.0	21.6	1,964
"	"	Steven Babbidge, David Boggs	5/24/79	91.5	8.6	778
"	"	Marilyn Loesch	3/17/79	77.3	6.2	657
Western Mtg.....	1,003	Landon T. Clay, Stephen Mead	11/10/79	117.2	#11.7	381
Westport Co.....	2,388	Leonard Dalsemer	8/13/79	1033.5	#43.3	3,359
"	"	Deltec Panamerica	5/1/79	162.4	6.8	497
Wisconsin REIT...	1,514	Wisc. Assoc., Milwaukee Assoc.	10/20/77	127.0	8.4	540
"	"	Maurice Aylward et al.	8/20/79	101.0	6.7	429

TOTAL MARKET VALUE.....\$109,984

Representatives of this group have taken board seats, but not full control.

* Date of latest proxy, 13-D or other report, adjusted for known sales, but subsequent sales may not have been revealed. NM-No market. b-Shares into which bonds or warrants are convertible, and percentage of shares that would then be outstanding. c-Failed to gain control, d-Tender offer of \$6.25/share rejected.

TABLE II -- MAJOR NEW FULL CONTROL POSITIONS IN REALTY TRUSTS @ JANUARY 1980

Trust	Th.Sh. Out	Controlled by	Date*	Th.Sh. owned	% of Total	Mkt. Val. (Th. \$)
ANRET Inc.....	509	Lee Balter, Reed Rubin et al.	10/15/79	108.5	21.3%	\$ 1,056
Bayswater Rlty..	1,043	Carl Icahn	12/5/79	477.6	45.8	4,298
Compass Inv. Gr.	6,939	Joe Akerman, John Wertin	2/12/79	1514.7	21.8	2,181
" " " "		American Financial Corp.	12/26/79	3620.0	52.2	4,978
Citizens Growth...	811	Brent Baird et al., Eastover	4/27/79	101.0	6.7	328
Eastover Corp...	1,034	Leland Speed, Brent Baird	3/30/79	169.5	16.4	2,204
Hanover Square....	946	Cooper Labs, Chas. Urstadt	8/17/79	258.5	27.3	1,486
ICM Realty.....	3,011	Eastover, Citizens Growth	1/2/80	704.0	23.4	10,560
Kenilworth Rlty.	2,609	David J. Greene et al.	7/20/79	503.5	19.3	13,720
Lincoln Mtg.....	1,155	Morse VanHorn, Ted Nelson	8/15/79	291.1	25.2	982
Mission Inv. Tr.	1,812	Intermark Inc.	9/7/79	208.5	11.5	1,349
Parkway Co.....	1,055	Eastover, Citizens Growth	5/14/79	329.8	31.3	1,649
UMET Trust.....	2,109	Perpetual Storage et al.	2/26/79	335.4	15.9	755

TOTAL MARKET VALUE.....\$45,546 Th.

* Date of latest proxy, 13-D or other report; subsequent sales or purchases may have occurred.

flects the absence of the larger concentrations necessary to assume full control or to take over a trust entirely.

Investors continue to favor the low-priced, non-dividend paying, unlisted stocks. Two of the trusts listed sell for less than \$1, 34 from \$1 to \$4.99, 16 from \$5 to \$9.99, 7 from \$10 to \$19.99, and four for \$20 and over. But while in May we found that the high-priced issues accounted for a disproportionately large amount of total market value, now investments are fairly evenly weighted across the board, with the 11 most expensive issues (18% of the trusts listed) accounting for only 20% of total market value. Otherwise, tendencies have remained the same; 39% of the trusts are traded OTC, while only 10 are traded on the NYSE, 10 on the ASE, and 2 on regional exchanges. Only 21 of the trusts are qualified REITs, and only 18 are dividend payers.

Yet with these similarities there remain crucial differences among the trusts and the objectives of investors in them, which must be taken into consideration in choosing among them. These factors include the following:

--Income stream vs. capital appreciation. While most of these investors are looking for capital gains from stock price appreciation (the nature of the holdings indicates this), to others the absence of a dividend is a sore point--they cannot justify tying up large sums of money without a current income. We know of one sizable investor who told trust management, "The difference between us is that you've got a position and I've got an investment, and you get paid every two weeks and I don't." On the other hand, the existence of a dividend may be annoying to other investors seeking capital gains who would rather have tax loss carrywards used to offset taxes.

--Liquidation or expansion. Some investors want the trust to liquidate assets and pay out the proceeds; others prefer a trust to seek acquisitions.

--Trader or controller. Some investors are looking to influence trust business, if not to assume full control, having a "hands-on" attitude toward their investment; others are traders, in the business of turning over large blocks of stock once a target price is

TABLE III -- LONGSTANDING
CLOSELY HELD POSITIONS

C.I. Mtg.....6%	New Plan.....31%
Denver REIA....9%	NJB Prime....13%
Flatley Rlty..19%	Penn REIT.....9%
Franklin Rlty..7%	Saul (BF)....18%
Fraser Mtg.....5%	So. Atlantic.12%
Gould Inv.....35%	United Rlty..14%
GREIT Rlty.....5%	Virginia.....16%
Hospital Mtg*.48%	Walter Rlty..10%
Miller (HS)...19%	Wash. RIT.....5%

* Incl. 24% owned by Transco Rlty.

reached.

--Presence of other large voter blocs. In cases where other investors, families or advisers have sizable positions, the large investor may not be able to carry out his intentions toward the trust. And if someone else assumes a majority position and does not buy him out at a premium, he may be left holding the bag indefinitely. The table on the top of the page details percentages of insider ownership in various trusts.

--Time frame for workout of difficult situations. The large investor may have a much longer time horizon for realization of his investment. If liquidity is a prerequisite for the individual, these issues should be avoided.

--Trust charters. Unlike corporations, some trust charters reserve a substantial amount of power to the trustee and little to the shareholder. Others give shareholders more rights. Within the constraints of a particular charter, a large investor may find himself impotent despite substantial holdings.

Keeping these factors in mind, let's look at different investors a little more closely:

NEW PLAYERS ENTER REALTY TRUST ARENA

A group of Minneapolis investors, headed by Ralph Strangis and Peregrine Investment Co. has taken a 15.9% interest in Central Mtg. & Realty at an

average share price of \$9.64. The stock recently closed at \$9.50. The group's intention is to achieve a majority representation on the trust's board in order to examine and direct the following policies: utilization of trust assets during period of high interest rates and limited opportunities; dividend policy in light of available tax loss carryforwards; fees for unused bank lines; fees resulting from a management agreement. The trust has responded with a letter to shareholders defending trust policy and asking for comments; it previously rejected a merger overture. The shares (OTC) are attractive for liquidation/buyout potential helped by the Peregrine position; improving trust operations serve as a safeguard.

Through subsidiaries of Murdock Investment Corp., David H. Murdock has purchased 384,600 shares (5.25% of the total outstanding) of Diversified Mtg. Investors (\$4.50--NYSE). Over half of the shares, those most recently acquired, were purchased at an average price of \$4.67. Additional shares may be purchased, and Murdock may seek representation on the board of directors as part of his intention to participate in the management of Diversified. The trust had a deficit of 50¢/sh. in the first nine months of 1979, and land sale potential is limited by high interest rates; even so, the shares are an attractive speculation on the Murdock interest. MEI Corp. owns an additional 7.4% of the shares.

A group headed by Frederick Crocker Whitman has purchased a 12.2% interest in Franklin Realty (\$11.63--ASE), plus debentures convertible into 30,600 additional shares, representing a total 14.8% interest on conversion. The group reportedly contemplates no additional purchases, and states that the shares purchased to date represent a portfolio investment, with no attempt to effect a change in trust business or seek liquidation planned. The trust shares are seeing a lot of action, with other major positions held by Benjamin Electrical Engineering Works & its Profit Sharing Trust, et al. (16.5%, with converts to a total 19.1%); and Collins C. Diboll

(5.5%). The Benjamin Electrical group is seeking participation in trust management. With a rumored \$25/share break-up value and the high amount of block holdings, these shares look like winners.

Two limited partnerships, TBK Partners and Viridian Investments, have assumed a 5.4% interest in GREIT Realty (\$8.63--ASE) at an average share price of \$7.63. The group is seeking dissolution of the trust, but the Unicorp Financial 22.6% interest in the shares means that they will have to find some support first from some group of holders. Dissolution does not appear to be a near-term possibility. The trust recently provided for a loss of \$2.2 million on the sale of its Miami shopping center, but the sale will help long-term portfolio upgrading. GREIT is a substantially higher-quality entity than most of the other trusts in the group, as a qualified REIT with a stable dividend; the shares are fairly low-risk, for a long-term workout of vacancies and portfolio improvements, to be helped by Mann (Unicorp) presence on board.

A group headed by Don C. Whitaker has assumed a 6.4% interest in Lincoln Mortgage Investors (\$3.38 bid,--OTC) at an average share price of \$2.81/share. This holding is not the play in these shares; the recent Van Horn assumption of control (see p. 7) is the attraction here. Lincoln would have minimal break-up value; the speculation is that the new management can rebuild book value (72¢/share) through its policy of acquisitions. This will be a drawn-out process, as there is little to work with in the trust; the shares still are interesting for long-term appreciation on the Van Horn position.

A group headed by real estate consultant Maurice J. Aylward currently has a 6.7% interest in Wisconsin REIT (\$4.25 bid--OTC), some 70% of which was purchased at an average share price of \$4.30. This group has formed a "Shareholders Protective Committee," for the purposes of seeking changes in trust management and board of trustees. The first order of business would be to reduce trust operating expenses; following that various courses of action such as liquidation, di-

versification, or business combinations, such as mergers or acquisition. The trust has already moved into land development through an Orlando homebuilder. There is a fair amount of upside potential on trust holdings which would be helped by diversification; the downside is protected by improving operating results (41¢ including tax credits in the September quarter). The trust began paying a nominal dividend in April, 1979; as of early 1979, it had available \$3 million (\$1.98/share) in tax loss carryforwards to shelter income. Two entities, Wisconsin Associates and Milwaukee Associates, own 8.4% of the shares; Deltec Panamerica sold its 6.6% interest.

AND THE OLD PLAYERS KEEP BUYING NEW NAMES

The year 1979 saw some early block buyers of realty trusts become multiple buyers so that they now have ownership or control of clusters of realty trusts. We now list these buying groups on p. 16 of Relative Appeal issues. A rundown:

American Financial Corp., the Cincinnati financial holding company headed by Carl Lindner, has started using its vast credit resources (mainly through Great American Life Insurance Co.) to extend backup financing to hard-pressed REITs and thus get major stock positions:

North Amer. Mtg. sold 36% control to AFC to get funds to repay maturing bonds;

Compass Inv. Group is issuing 52% of stock to AFC upon conversion of \$4.9 mil. of CIG 8½% debentures; AFC then will provide funds to call all other converts;

First Mtg. Inv. issued warrants for 8 mil. sh. (or 36%) for backup financing.

Deltec Panamerica S.A. is a Panamanian holding company principally engaged in the securities and merchant banking business. It currently holds minor positions in GMR Properties (6.9%), First Newport (5.6%), Westport Co. (6.8), and most recently (not included in the table) Mortgage Investors of Washington (7.2%). Deltec's stated purpose on share acquisitions is for investment purposes; it monitors operations closely, however, and has a representative on the GMR board and is placing one on the M.I. of Washington

board. You can look for a possible business combination among Deltec interests, but the company has a fairly long time horizon--it is willing to wait for its opportunities. This does not preclude making a swift buck--see the recent sale of its Wisconsin REIT investment. This leaves the investor following Deltec investments two plays; get in as soon as it does for some immediate appreciation, or take a position later for the long-term.

Drexel Burnham Lambert, major stock brokerage and junk bond dealer, has accumulated over 5% of stock in: CleveTrust; First Denver; First Memphis; Indiana Fin.; Tri-South Mtg. bonds. Presumably the blocks are for sale to highest bidders.

Eastover Corp., with its positions in Parkway, Citizens Growth, and ICM, is a trust functioning as a trust holding company. See RTR, Nov. 9, 1979, for discussion of its holdings and their effect on Eastover.

Loyal Amer. Insur. Co. is controlled by former shipping magnate Malcolm McLean and has been an aggressive investor. Positions: TRECO, Inc., Cit. & So. Realty, and Riviere Realty.

Morgens, Waterfall & Co. of New York advises several partnerships, mostly with European money, and appears to invest in speculative positions for later resale. Holdings: Amer. Fletcher, CMT Invest., First Memphis, Great Amer. The Capital Mtg. position reported Dec. 7 has been sold and Metroplex Rlty. bonds converted into a 5½% position.

Unicorp Financial, (George Mann, President and controlling shareholder) is a Canadian holding company with interests in GREIT Realty (see p. 6), First Union, REIT of America, and San Francisco REIT. Positions in trusts have been increasing steadily.

Morse Van Horn has assumed control of Lincoln Mortgage; through a Lincoln subsidiary and personal purchase, he has established an aggregate 12.7% interest in Builders Inv., indicating Van Horn may be attempting an Eastover.

MERGERS & ACQUISITIONS: SIX TRUSTS PLAN EXCHANGING STOCK FOR NEW REALTY ASSETS

The year 1980 should go down as a bumper year for action as deals remake the assets and earning power of former trusts. Look at the box score:

For 1979: Four trust mergers or acquisitions were completed but five fell by the wayside*.

For 1980, the year opens with six proposals cooking and quite a few more rumored in the talking stage. All in all, the record four completed mergers of 1979 is likely to be a fragile record and 1980 deals could top it easily.

Long-time readers know that we comb these proposals for stocks we can recommend to you because the deals can provide quantum leaps in earnings power after taking any stock dilution into account (i.e., the industry scorecard is purely secondary except to identify trends). On that basis we jumped TIERCO to No. 1 Ranking (RTR, Oct. 26) because its merger with Viking, Inc. gave it new financial muscle. Shares were 4 then; they are now 3-3/4 bid, a normal trend because it sometimes takes several quarters for benefits to surface.

We prefer to wait until deals are

* The completed deals: Summit Prop. in June completed merger into Investors Realty to form a new IRT Property Co.; Newcorp (formerly Cousins Mtg.) acquired majority of Pier 1. Imports, Inc. shares in an Oct.-Nov. tender and the combination will be renamed Pier 1. Imports; TIERCO acquired assets of Viking, Inc. in October in an exchange giving Viking owners about 49% of the combined stock; and Sutro Mortgage was merged into PNB Mtg. & Realty in November.

Aborted deals include these proposals: Capital Mtg. to merge into Columbia Corp., an S&L holding company; GMR Prop. with Hollinee Corp.; First of Denver Mtg. with Van Schaack & Co.; Plaza Realty with Gould Investors; and Security Mtg. with Wachovia Realty.

set and approved before making Ranking changes, however, because the over-50% mortality rate in announced deals last year really means the risk is stacked against arbitrageurs here. And experience shows that you generally will have ample time to make commitments after the approval risk is removed.

Our analysis of six pending deals shows that most trusts are focusing upon buying, through share exchanges, real estate properties or developers. And pricing to date underscores a basic fact: that loss REITs can pay twice as much for earning assets as profitable companies because they escape the 46% corporate profits tax. Thus we think you should view investments in REITs with large taxloss carryforwards as bets on their ability to buy earning assets, not as takeover targets for earning companies.

In this context we analyze the six pending deals as follows:

BT Mortgage Inv. (2--NYSE) trustees have approved merging into Leroy Properties & Development Corp., Las Vegas property owner, manager and developer. BT holders would own not less than 20% of the combined company, with final exchange ratio determined by relative financial statements and appraisals of assets. BT shows \$2.4 million or \$1.13/sh. book value net of intangibles at 9/30/79. Leroy has \$8.05 million or \$1.89/sh. stated equity at 8/31/79; the 4.26 million shares trade at 3 bid, 4 asked OTC. Leroy believes market value of its assets substantially exceeds book value. Chairman Leo Frey and a brother own 79% of its stock. BT shareholders will vote in late spring.

Heitman Mtg. Inv. (2--ASE) agreed to issue 1.2 million sh. or 26.7% of the 4.49 million pro forma outstanding sh., for Southgate shopping center, Fort Wayne, Ind. Southgate was appraised at \$4 million. Five Heitman trustees own 45% of Southgate and completion would result in their owning about 12% of HTM sh. Heitman will ask holders in March to approve the deal and to permit other real estate equity investments in a diversification away from mortgage lending.

Midland Mtg. Inv. (3-3/4--NYSE) has agreed to acquire land and development rights by issuing an unspecified number of shares for Snowmass Co., Ltd., a limited partnership owning land zoned for 174 unrestricted units at Snowmass Village near Aspen, Col. Shareholder approval is sought at a March 1980 annual meeting.

NJB Prime Inv. (6--OTC) has signed definitive agreement to merge into Prime Motor Inns, Inc. Prime Motor owns about 12% of NJB stock and was an original sponsor; Prime operates motor inns and plans a gambling casino at Atlantic City. Each NJB share would receive \$2 cash, 0.34 sh. of Prime common (worth \$4.75 at Prime's \$14--NYSE price), and a warrant to buy one Prime share for the higher of \$16 or 120% of average closing price during 20 trading days before shareholder meetings, expected in March. Warrants would be exercisable for 30 months & callable at \$2. Proxy material is expected in February.

State Mutual Inv. (4-7/8--NYSE) holders vote Jan. 18 on exchanging 2.786 million new shares, or 50% of shares to be outstanding, to acquire Greenville Corp., California development company wholly owned by Roxboro Realty Corp. Ltd., Alberta, Can. company owned by interests associated with Samuel Belzberg of Vancouver and the Belzberg family. Greenville properties are appraised at market for merger purposes and SMI shares are valued at \$5 market vs. \$9.43/sh. net tangible book value. The merger is to "obtain continuing experienced real estate management" for SMI, whose advisory contract with State Mutual Life ends Feb. 1981. On balance, approval vote is advised.

U.S. Realty Inv. (8 1/4--NYSE) has tentatively agreed to acquire MDC Corp. (Colorado), Denver real estate developer, by exchanging approx. 900,000 sh. or 20.8% of potential shares. Publicly owned MDC (1 1/2 bid--OTC) earned \$1.16 million after taxes in nine months to Sept. 30; pretax net was \$3.0 million in 1978. That works out to 70¢/sh. on pro forma combined sh. since USRI's taxloss carryforwards would shelter MDC's income. USRI earned 19¢/sh. in the nine months to Sept. 1979, including 22¢ gain on asset sales.